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National Intelligence Bulletin

State Dept. review completed

DIA review(s) completed.

Top Secret

16 July 1974

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Nº 631

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Approved For Release 2007/03/06 : CIA-RDP79T00975A026700010048-3

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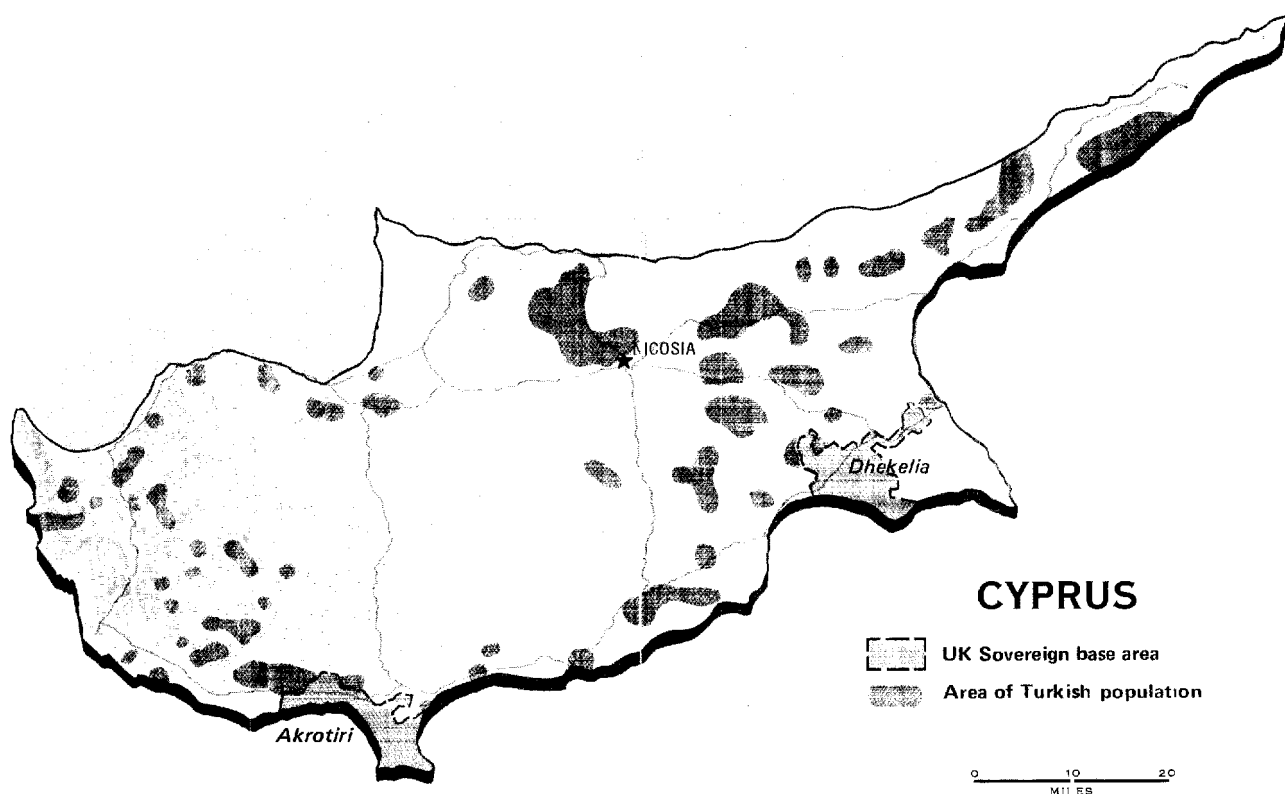
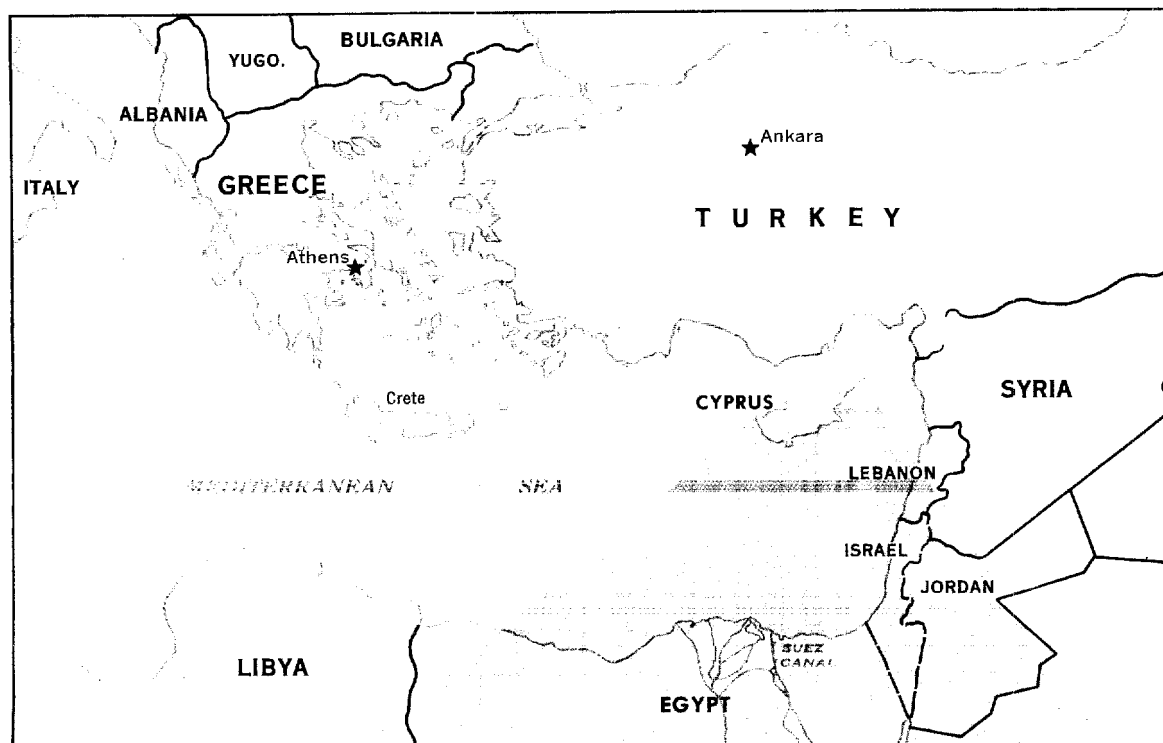
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CYPRUS-GREECE

Athens' power grab in Cyprus apparently has failed to achieve its basic objective, the elimination of Archbishop Makarios. [redacted] the deposed President is in Paphos, in the southwestern sector of the island.

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Fighting between the Greek-officered National Guard and forces loyal to Makarios reportedly ebbed last night, after heavy fighting in some towns and sporadic firing in others had continued throughout the day. Although there have been reports of exchanges of gunfire between Greek and Turkish Cypriots, there appears to have been no involvement of the Turkish community in the crisis.

The Greek-led forces, who are apparently in control of the situation, have destroyed the presidential palace and seized the airport, National Guard area, Cyprus Broadcasting Corporation facilities, and key telecommunications installations in Nicosia. [redacted]

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How Makarios got to Paphos is unexplained, but press sources now tend to confirm earlier indications that he was not slain. [redacted]

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[redacted] A radio station in Paphos late yesterday broadcast a short speech purportedly by the archbishop, who pledged a fight to the finish against the Greek perpetrators of the coup. Greek security forces have taken measures to prevent Greek Cypriots on the mainland from demonstrating for Makarios.

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Athens has not altered the alert status that its armed forces have been maintaining because of the Aegean crisis with Turkey.

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Not surprisingly, Athens has had nothing to say about Greek involvement in the operation

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The coup and the appointment of Sampson, a right-wing publisher and member of Parliament, to replace Makarios would appear to be an abhorrent choice to many in both Cyprus and Turkey. Sampson is widely remembered for his murderous exploits, particularly against British subjects and Turkish Cypriots, during the Greek Cypriot uprising led by the late Greek General George Grivas against UK authority in the late 1950s.

An ambitious opportunist, Sampson has demonstrated a willingness to change editorial lines to meet the dictate of the financial supporter of the moment. His notorious devotion to enosis, union of Cyprus with Greece, will raise fears in Ankara of such an intention on his part.

Ankara's relations with Athens, already troubled by rival claims of sovereignty over the Aegean seabed, can only be worsened by the Greek action. The Turkish National Security Council met yesterday, and although no action has yet been indicated by Prime Minister Ecevit, he left no doubt that Ankara is convinced of Athens' complicity in the take-over.

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25X1 Turkey, like Greece and the UK, is a "guarantor power" according to treaty and has the right either unilaterally or collectively with the other powers to preserve the status quo on the island.

Should any fighting spill over and jeopardize the security of the minority Turkish Cypriot community, or should the Greek side declare for outright enosis, Ankara would find it difficult to avoid direct involvement.

* * * *

For its part, Moscow last night broadcast a statement cautioning Athens to cease interference on Cyprus but avoiding any bellicose threats. The statement, released by Tass, referred to Soviet demarches that have been made to Washington, London, and Paris, thus indicating that Moscow expects the Western powers to help resolve the crisis.

The statement clearly showed that the Soviets would support President Makarios' return to power. The text stressed the "lawful" nature of his government and maintained that "only" his government is supported by the will of the people. It implied that Moscow would assist an opposition movement, even if Makarios is dead. The large, well-organized Cyprus Communist Party (AKEL) would form the obvious base for such a movement.

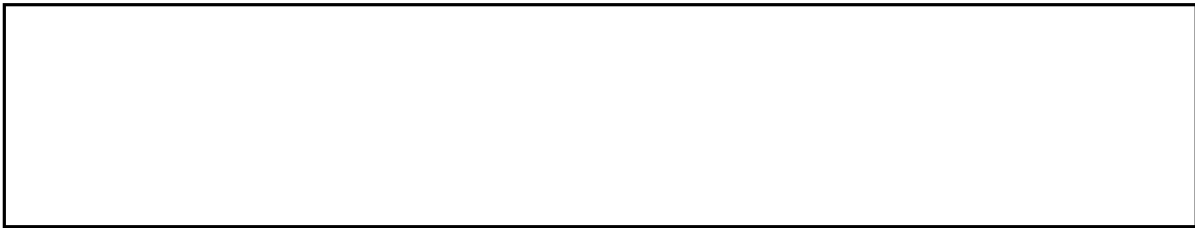
The UN peace-keeping force on Cyprus has so far not intervened in any way. The force numbers only about 2,400 troops and could not deal with more than minor incidents.

According to UN Under Secretary General Urquhart, Cypriot UN Ambassador Rossides is determined to convene the Security Council and last night prepared a letter requesting a meeting. Rossides still is not certain, however, that the instructions on which he is acting

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really came from Makarios. UN Secretary General Waldheim had earlier refused to request a Security Council meeting himself, but he has reportedly been keeping in touch with the countries that contribute troops to the peace-keeping force.

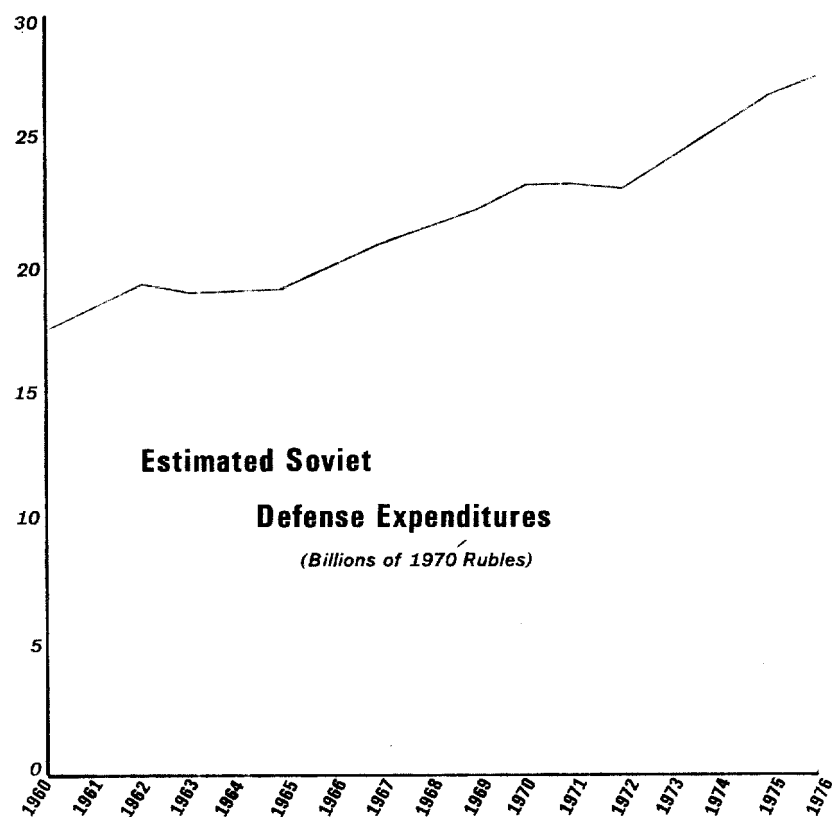


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USSR

Soviet defense spending grew by more than 5 percent in 1973, following a period of little change between 1970 and 1972. Increases almost as large--based on projections of future Soviet forces--are estimated for 1974 and 1975. Such rates of growth are substantially above the long-run annual rate of increase, which has averaged less than 3 percent since 1960.

It is estimated that Soviet defense expenditures (not including "civilian" space programs) will be about 25.5 billion rubles in 1974. The estimated equivalent dollar cost of the 1974 Soviet defense effort--what it would cost to purchase and operate Soviet military forces in the US--is approximately \$93 billion.

The increase in spending from 23.1 billion rubles in 1972 to 26.8 billion rubles in 1975 is primarily the result of extensive force modernization programs of the Strategic Rocket Forces. The Soviets are replacing a large portion of the SS-11 force with an improved version. In addition, over the next several years the Soviets are expected to begin replacing the SS-9, the remainder of the SS-11, and SS-13 missiles with new ICBMs. These programs will triple expenditures for new weapons for the Strategic Rocket Forces in 1974 over those of 1972. Strategic Rocket Forces expenditures probably will remain high throughout the decade.

Although the present growth in spending is striking, the general pattern since 1970 is consistent with past cycles of Soviet defense outlays. For example, Soviet defense expenditures grew rapidly in the second half of the 1960s, with the deployment of the SS-9 and SS-11 systems. Total defense spending then stabilized in 1970-72 with the completion of these programs, despite a rapid expansion in research and development for the follow-on missile systems.

Total expenditures are expected to level off again in 1976 at about 7 percent higher than present spending. For the 1970s as a whole, estimated defense expenditures are expected to grow at about the long-run historical average.

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NATO-CSCE

The European NATO partners who are in the EC are likely to balk at some aspects of the US proposal to review the Western position in the CSCE when it is discussed at the North Atlantic Council meeting on July 17.

The EC states are in full agreement on virtually all aspects of their policy toward the CSCE negotiations, according to Belgian Foreign Minister van Elsandé. [redacted] objectives on which the Nine firmly agreed at last week's meeting of the EC political directors include avoiding the appearance of a bloc-to-bloc approach in the negotiations, and beginning the current review of Western positions in Geneva--the site of the security talks--rather than at NATO headquarters in Brussels.

There was also a "strong tendency" among the Nine political directors [redacted] to agree that the decision to hold the CSCE's final stage at the summit should depend on the general state of East-West relations at the end of the current stage of the conference, as well as on a satisfactory outcome of this stage. The former requirement would add another hurdle to agreement on the specific minimum essentials of a Western position. [redacted]

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ITALY

Italy's top labor leaders will meet today to formulate an official response to the government's austerity program. Labor is united in its dislike of the program, but is divided over how far to go in pressing the government for changes.

Labor is concerned that the austerity program--which couples steep tax increases with credit restrictions as a means of reducing the budget deficit--will lead to increased unemployment and continued inflation. The unions are particularly disturbed by tax increases on consumer items such as certain foodstuffs and gasoline.

The unions are also dismayed by what they view as the government's failure to include comprehensive new social and economic programs as part of the package. The program provides for assistance to the country's economically beleaguered hospitals and for increased financing for agricultural development. The unions believe that the program does not go far enough, and they want the government to follow through on long-standing pledges for improvements in areas such as health insurance, public housing, urban transportation, and southern development.

Not all of labor's demands, however, involve increased spending. In fact, the main labor complaint centers on the vast proliferation of government agencies in recent years. These agencies absorb enormous sums of money, but many do not provide visible services. The unions want sharp cuts in this bureaucracy and a temporary freeze on government hiring. This is the most politically sensitive of labor's demands, because the state bureaucracy provides one of the main sources of patronage for the governing parties--particularly the dominant Christian Democrats.

The more militant unions are in favor of calling a general strike to support labor's demands. Other labor elements, however, are counseling moderation and patience.

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Labor's indecision is complicated by the fact that the powerful Communist Party, which exerts considerable influence in labor circles, is divided over how best to use its leverage. Extremists and moderates are frustrated by the realization that, in the current economic and political circumstances, neither course is likely to achieve labor's objectives.

Advocates of moderation may have been given a boost by a government decision over the weekend to ease credit restrictions earlier than originally planned. The most likely outcome, therefore, appears to be conditional acceptance of the program by labor, coupled perhaps with a token strike to vent worker dissatisfaction.

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USSR

25X1 Leading officials of the Soviet electronics industry have told [] that the Soviet Union is four or five years behind the United States in integrated circuit technology. []

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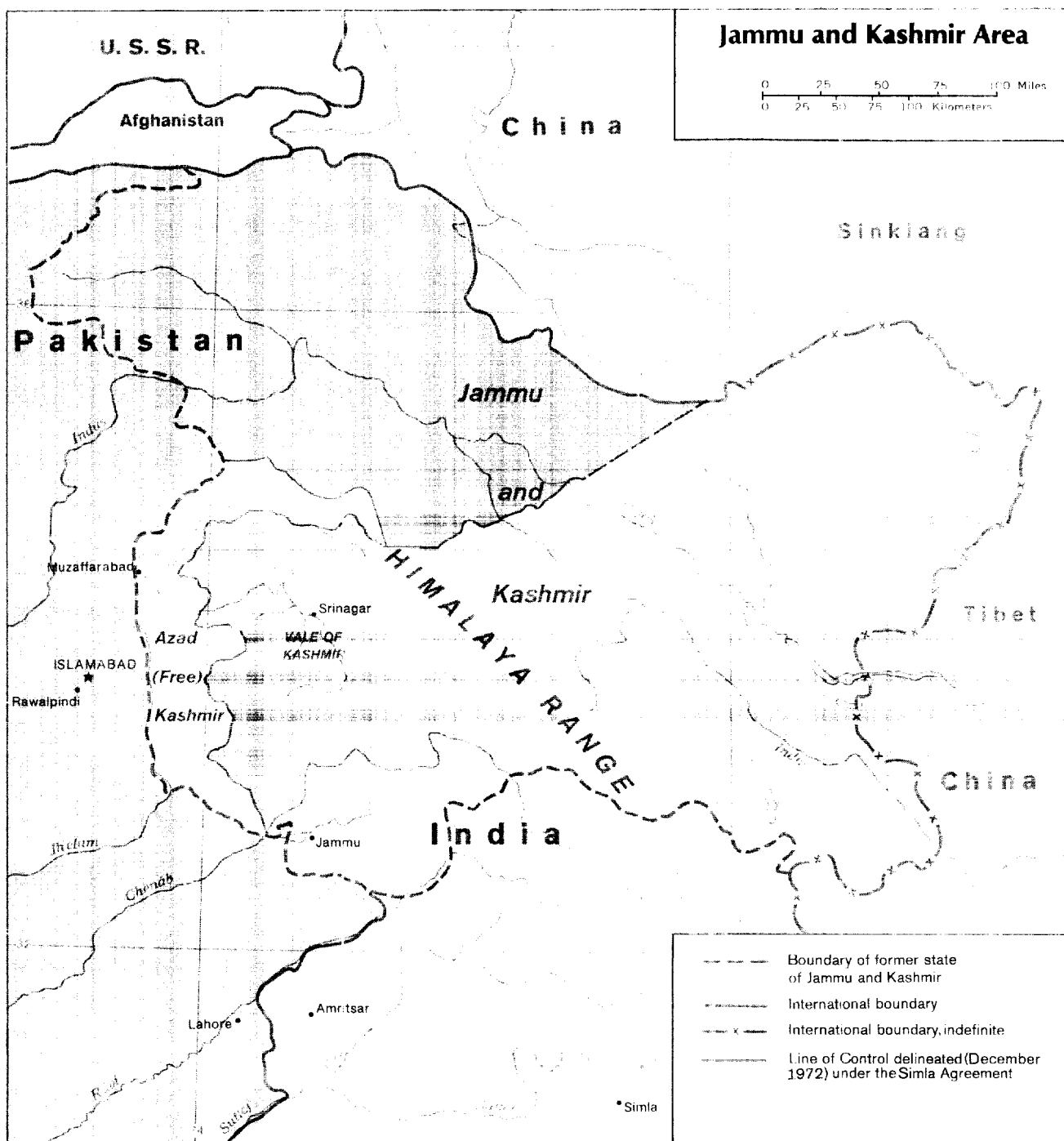
[] Integrated circuits are needed to meet the size, weight, power, and reliability requirements of modern military equipment as well as the needs of many civil electronic systems.

A development and production complex at Zelenograd, about 30 miles northwest of Moscow, is the focal point of Soviet efforts in this field. This complex has the best trained personnel and the most advanced laboratories in the country, and it directs and controls the entire microelectronics industry in the USSR.

A number of reasons, ranging from a nonuniform supply of high-quality circuit materials to poor production-control techniques, account for the inferior quality of the Soviet integrated circuits. The Soviets also do not have adequate "clean rooms" and optical equipment, both of which are required in the manufacture of integrated circuitry, at their production plants. In addition, the descriptive paper work that accompanies the circuits is often incomplete and at times in error. Equipment designers are thus confronted with delays that can result in costly redesigning and retooling operations.

Although the Soviets are trying to solve these problems, they are still highly dependent on Western and Japanese technology, particularly for production processes. They are also attempting to import production equipment.

25X1 The integrated circuits the Soviets make for military systems probably are of simple design. If the Soviets were to make and use the more complex large-scale integrated circuits at the present time, they would probably encounter serious reliability problems, even though such circuits might have passed electrical tests in the factory. []



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PAKISTAN-INDIA

The Kashmir issue has again become an active irritant in Indo-Pakistani relations. Islamabad's apprehensions over possible changes in the status of the Indian-held portion of the disputed territory may have sparked Pakistani charges last week that New Delhi is planning aggressive military moves.

In late 1973, key Kashmiri leader Sheikh Abdullah publicly accepted the finality of Kashmir's accession to India in 1947. In recent months there have been indications that New Delhi and the Sheikh have been moving toward an agreement that will return him to power and give Kashmir more autonomy within the Indian union. The Sheikh, 68, insists that Kashmir's accession in 1947 was limited to defense, foreign affairs, and communications, and that New Delhi's expanded control over Kashmir since his removal from the post of prime minister of Kashmir and arrest in 1953 is invalid. In early July his political organization, the Plebiscite Front, publicly withdrew its quarter-century-old demand for a plebiscite to determine whether Kashmir should accede to India or Pakistan, and the front is continuing negotiations with New Delhi on a new political arrangement. A final agreement probably is several months away. New Delhi favors the Sheikh's open association with the Kashmir government, because this would enable India to claim with some authority that the Kashmir issue has been settled.

Although Pakistani leaders have privately accepted the status quo in the Indian-held portion of the disputed state, they are worried over the effect that a settlement between Abdullah and New Delhi would have on the future of Azad Kashmir, their own portion of the former princely state. The Pakistanis say they are fearful that Sheikh Abdullah may now lay claim to Azad Kashmir. The government in Islamabad probably also fears popular reaction in Pakistan to any sudden change in the status of Indian-held Kashmir.

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This uneasiness is apparently behind charges by government-controlled media in Pakistan that India's nuclear test on May 18 and alleged troop movements are intended not only to intimidate Pakistan but also to provoke it so that New Delhi would have a pretext to move militarily against Azad Kashmir. The press has warned that any move by New Delhi to change the status of either portion of Kashmir would almost certainly destroy advances that have been made toward normalizing relations on the subcontinent.

US defense attachés in India and Pakistan report there are no indications of troop movements toward the border area, but both countries normally have heavy concentrations of forces in areas either along or close to the border. With emotions running high in both India and Pakistan, border incidents are possible. [REDACTED]

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INDIA-CZECHOSLOVAKIA

New arms accords probably were reached during Indian Defense Minister Ram's visit to Prague earlier this month.

Ram's itinerary included a visit to an aircraft factory where L-29 and L-39 jet trainers are produced. Ram also saw a demonstration of infantry equipment. The new accord may cover additional ground forces equipment, including rocket launchers, bridging equipment, tank transporters, ammunition, and OT-64 armored personnel carriers.

Preliminary negotiations were probably conducted during visits of the chief of staff of the Indian army and the Indian finance minister to Czechoslovakia in June. Prague has been a regular supplier of this equipment since 1965.

India has not previously purchased jet aircraft from Czechoslovakia, but the introduction of Czech jet trainers would allow retirement of some of the aging trainers in the Indian inventory and compensate for slow local production of the HJT-16 trainer. [REDACTED]

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ARGENTINA

Recent elections in the Peronist-controlled General Confederation of Labor have resulted in a rightward shift that will strengthen the hand of presidential adviser Lopez Rega.

The leadership of the powerful labor organization, which provided the bulk of Peron's political strength, will have a strong bearing on the future of the Peronist movement and the course of Mrs. Peron's government. While the labor confederation was already conservatively oriented, last week's decision to edge out several moderate leaders in favor of right-wing challengers tilts the balance even further in favor of leaders considered allies of Lopez Rega. Lopez Rega has had little following of his own, but he has been enlisting the support of politically conservative labor leaders to enhance his own position.

Moderate labor forces received a further setback with the sudden death of Adelino Romero, the secretary general of the confederation, who suffered a heart attack shortly after being re-elected last week. A deputy has assumed his post, but real power rests with Lorenzo Miguel, the strongman of the key metalworkers union, whose protégés now control the ruling council of the massive labor organization. Miguel

[redacted] has received the solid backing of Lopez Rega.

Developments in the trade union field seem sure to spell difficulties for Economy Minister Gelbard, a rival of Lopez Rega and the architect of the price-wage freeze that has formed the cornerstone of the Peronists' economic program. Although the recent labor congress pledged its support for this policy, it hedged with a warning that the unions would not abide by restrictions that served "antinational interests" or provided a "smokescreen for speculators to get rich."

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One wage increase has already been granted, and worker demands are expected to increase, putting greater pressure on Gelbard's efforts to contain inflation and economic deterioration. If the current wage and price controls accord continues to crumble, Gelbard's position is likely to become tenuous. Mrs. Peron's ability to devise new solutions would be tested for the first time.

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ARGENTINA

The assassination yesterday of a former interior minister appears to signal a revival of terrorist activity, following the standdown after Peron's death.

Arturo Mor Roig, who served prominently in the military administration of General Lanusse, was gunned down in Buenos Aires by an unidentified group of terrorists--probably members of the extremist People's Revolutionary Army.

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Although Mor Roig had not been active politically for some time, his close identification with the former military government and his key role in laying the groundwork for the elections that brought the Peronists to power probably explains why he was a target.

Mor Roig, who fit the terrorists' classification of "class enemy," is the first high-level figure to be killed by terrorists since a leading judge was machine-gunned in late April.

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FOR THE RECORD

Spain: General Franco apparently is responding favorably to treatment for phlebitis, and there is no evidence at present that he was hospitalized for other reasons. He has continued to receive a steady stream of high-ranking visitors throughout most of the period of his confinement; he is expected to be released this week.

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The security services alert that went into effect when Franco entered the hospital on July 9 has been lifted.

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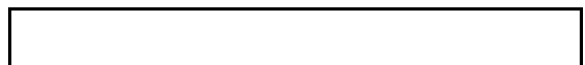
France: France's trade deficit fell from \$630 million in May to \$80 million in June on a seasonally adjusted basis. Exports continued a strong upward trend, while temporary factors caused a decline in imports, particularly crude oil. The second-quarter trade deficit reached \$1.1 billion, bringing the total deficit for the first six months to \$1.8 billion. For all of 1974, the deficit is likely to exceed \$4 billion, even though Paris has announced several moves intended to improve the trade balance.

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